Project Agreement

(Additional Financing for the Community Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FONDS D’INTERVENTION POUR LE DEVELOPPEMENT

Dated September 6, 2006
PROJECT AGREEMENT

Agreement dated September 6, 2006, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and FONDS D’INTERVENTION POUR LE DEVELOPPEMENT (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement of same date between the REPUBLIC OF MADAGASCAR (“Recipient) and the Association (the “Financing Agreement”). The Association and the Project Implementing Agreement hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.
ARTICLE III — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is the Directeur Général.

4.02. The Association’s Address is:

International Association for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRA D 248423(MCI) or 1-202-477-6391
Telex: 64145(MCI)
Facsimile: 22 336 06

4.03. The Project Implementing Entity’s Address is:

Fonds d’Intervention pour le Développement
Lot III M 39 Andrefan’ Ambohijanahary
BP 8231
101 Antananarivo

Facsimile:
22 336 06
AGREED in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ James P. Bond
    Authorized Representative

FONDS D’INTERVENTION POUR LE DEVELOPPEMENT

By: /s/ Eulalie N. Ravelosoa
    Authorized Representative
Execution of the Project

Section I. Institutional and Other Arrangements

1. The Project Implementing Entity shall maintain a board of directors, whose mandate, terms of reference and composition shall be acceptable to the Association, to be responsible for monitoring and supervision, and general oversight, of the Project, including liaison with the Association and other donors.

2. The Project Implementing Entity shall take steps to ensure that:

   (a) subject to the overall authority and oversight functions of its board of directors, its director general shall be responsible for overall supervision and coordination of the Project;

   (b) in the exercise of his functions, the director general shall be assisted by a technical director, a provincial director in each of the six Provinces, a financial and administrative director to oversee the Project Implementing Entity’s accounts, financial reports and audit arrangements, a director in charge of capacity building and decentralization, a director for quality, a monitoring and evaluation specialist and other suitably qualified and experienced staff in adequate numbers;

   (c) each provincial director shall be assisted by an accounting staff to be responsible for provincial accounts, a technical manager, an IEC and training specialist to organize and supervise training programs for the benefit of the Communes, an environmental specialist and other suitably qualified and experienced staff in adequate numbers; and

   (d) the positions of director general, technical director, financial and administrative director, director in charge of capacity building and decentralization, provincial directors, director for quality, accountants and monitoring and evaluation specialist, which are referred to in this paragraph, shall be kept filled at all times by persons having qualifications and experience acceptable to the Association.

3. The Project Implementing Entity shall carry out the Project in accordance with procedures set out in the Procedures Manual Environmental Procedures Manual, and FID Financial and Administrative Manual, except as the Association shall otherwise agree, shall not amend or waive any provision thereof, if such amendment or waiver may, in the opinion of the Association, materially or adversely affect the implementation of the Project.
4. The Project Implementing Entity shall submit to the Association, for its review or approval, as the case may be:

(a) no later than March 31 of each year, a proposed annual work program (AWP), including a proposed budget and financing plan, for the forthcoming year;

(b) reports as needed on the award of individual contracts under the Project; and

(c) Semester procurement reports giving details of:

(i) revised cost estimates for individual contracts and for the Project;

(ii) revised timing of procurement actions, including advertising, bidding, contract award and completion time for individual contracts; and

(iii) status of compliance with aggregate limits on prescribed procurement procedures, and with the Procedures Manual.

5. Further to Section I of Schedule 2 to the Financing Agreement, the use of the proceeds of the Credit allocated to Grants shall be subject to the following additional terms and conditions:

(a) the amount so allocated shall be used exclusively to provide Grants to finance Subprojects, in accordance with criteria, and terms and conditions, set forth in the Manual of Procedures;

(b) no Grant shall be granted except to finance a Subproject which contributes to the living standards and well-being of the community or Commune concerned;

(c) every Subproject proposal shall be classified according to environmental impact category, and subjected as necessary to environmental impact analysis, to ensure that: (i) it is fully consistent with environmental appraisal criteria set out in the Environmental Procedures Manual; and (ii) where appropriate, mitigation measures designed to minimize adverse effects of the proposed Subproject are identified and incorporated in the Subproject design;

(d) Grants shall be provided for the benefit of eligible Beneficiaries, and according to a cost-sharing formula, which shall be acceptable to the Association and specified in the Procedures Manual; provided, however, that except as the Association shall otherwise agree, the amount of each Grant shall not exceed:

(i) in the case of a Subproject under Part A.1 of the Project involving rural roads, $125,000;
(ii) in the case of a Subproject under Part A.1 of the Project other than a Subproject involving rural roads, $75,000;

(iii) in the case of a Subproject under Part C of the Project, $100,000;

(iv) in the case of a Subproject under Part D of the Project, $20,000; and

(v) in the case of a Subproject under Part E of the Project, $200,000.

goods, services and works required for the purposes of financing Subprojects shall be procured in accordance with procedures referred to in the Schedule to the Financing Agreement, and set forth in the Procedures Manual; and

for purposes of each Grant, an agreement shall be concluded with the Beneficiary in the form of the model provided in the Procedures Manual, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, the amount of the Beneficiary’s contribution to the cost of the Subproject, and the following additional terms and conditions, satisfactory to the Association:

(i) The Beneficiary shall be required to carry out and operate the Subproject with due diligence and efficiency, and in accordance with sound administrative, financial and technical practices, and with due regard to appropriate environmental and ecological considerations.

(ii) The Beneficiary shall have the obligation to ensure at all times that: (a) goods, works and consultants’ services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement; (b) such goods, works and consultants’ services shall be used exclusively for implementing the Subproject and achieving the objectives of the Project; and (c) upon completion of the Subproject, such Subproject shall be operated and maintained in accordance with the operation and maintenance plan agreed upon with the Project Implementing Entity.

(iii) The Project Implementing Entity shall have the right to inspect, by itself or jointly with representatives of the Recipient or the Association, if the Association shall so request, the goods, works and services included in the Subproject, the operation thereof and any relevant records and documents, and obtain any report in connection therewith, of such scope and in such detail as the Association shall reasonably request.

(iv) The Project Implementing Entity shall have the right to obtain all such information as the Project Implementing Entity, the Recipient or the
Association shall reasonably request relating to the administration, operations and financial condition of each Beneficiary, and the benefits derived from the Subproject.

(v) The right of any Beneficiary to the use of the proceeds of the Credit, or any part thereof, shall be promptly suspended upon failure by such Beneficiary to perform any of its respective obligations under the Grant agreement.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports the Project in accordance with the provisions of Section 4.08 (b) of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later 45 days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report. The first Project Report shall cover the period between the Effective Date and December 31, following that date.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

(i) Under Parts A and C of the Project:

- At least 160 sub-projects (individual investments) completed;

- Communities co-finance at least 10% of sub-projects and 5% for roads, in materials, labor, or money. 1% is deposited in a financial institution for maintenance;

- Communes co-finance at least 10% of annual costs of investments, and 5% for roads, in materials, labor, or money. 1% is deposited in a financial institution for maintenance; and

(ii) Project administration costs held to 10% of total cost.

2. The Project Implementing Entity shall provide to the Recipient not later than February 27, 2008, for incorporation in the report referred to in Section 4.08 (c) of the General
Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. **Financial Management, Financial Reports; Audits**

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association not later than 45 days after the end of each calendar semester, interim un-audited financial reports for the Project covering the semester, in form and substance satisfactory to the Association. The first un-audited financial report shall cover the period between the Effective Date and December 31, following that date.

3. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one Fiscal Year. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

**Section III. Procurement**

All goods, works and services required for the Project Implementing Entity’s Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.